

## Impediments to foreign aid

Centralised clearance for externally-aided projects is the need of the hour, says Uttam Gupta

**C**ENTRAL public sector undertakings have been allowed to directly negotiate external loans with donor countries and multinational agencies like the World Bank, ADB etc. since 1993-94. Prior to that, all negotiations for foreign development loans were handled by the Centre. The government has now decided to extend this facility to the state public sector enterprises. The decision is based on the finding of a recent finance ministry study that the Centre's intermediation was a major stumbling block, particularly in the utilisation of the external aid.

The move is particularly welcome as it seems to remove one layer of decision making and put the lender and the user of aid in direct interface not only for negotiations, but also, with regard to the utilisation pattern. Having done it, there is no reason to be complacent as the problem of slow pace of utilisation of external assistance is compounded by several other impediments.

The single most important problem is one of inadequate or perhaps, even non-availability of the matching rupee resources. The issue here is not just one of the Planning Commission making appropriate provision in outlay for externally aided projects, although even this may get neglected in the overall sectoral planning by the former. What is lacking is commensurate or matching resource mobilisation.

In the case of the central PSUs, apart from progressively reducing budgetary support, the concerned enterprises are not able to mobilise resources either by way of internal generation or borrowings from the market to the full extent as envisaged.

The situation in the state PSUs is even worse. The plan assistance to the state governments together with their own revenues, are barely sufficient to cover even their expenditure on the revenue account. In fact, even the funds earmarked for meeting capital expenditure are being diverted to meeting the revenue deficit which has increased in geometric proportions.

Against this backdrop, it is impossible to provide budgetary support for expansion/modernisation of the state undertakings or any other development oriented scheme that has an external aid component. Given the extremely limited options for them

to borrow either from the financial institutions or capital market, such a task is practically beyond their reach.

Thus, when matching rupee resources are either woefully inadequate or just not available, as in the case of the state PSUs, ready access to foreign funds following disintermediation by the Centre is not going to change things qualitatively.

The fact that the total accumulated un-drawn balance of project assistance from both the multilateral and the bilateral sources as at the end of 1993 was a staggering Rs 72,000 crore clearly shows that the problem could

the concerned foreign agencies for the loans, needs to have perfect coordination with the concerned department say industry, or power, under whose jurisdiction the project/scheme is being considered for financing and implementation. But given the unwieldy nature of the bureaucracies in the states, this is a tall order.

Invariably, a project/scheme proposal has to originate from the PSU. And, if the response from the latter is not fast enough — and this is a distinct possibility — that would add to another source of delay. Even in

Management of the PSUs must be allowed greater autonomy and flexibility in taking important decisions. If need be, the existing ceilings on capital expenditures beyond which approvals are required, raised substantially.

Similar dispensations will have to be put in place by the state governments to energise the state enterprises in putting up the entire package for external financing.

The involvement of both the beneficiaries of proposed projects as well as grassroot functionaries, who are the key elements in implementation, is most crucial.

Most schemes prove abortive as neither their appropriateness to the local circumstances nor their acceptability amongst the intended beneficiaries are tested. Participation of the democratically elected office bearers of the panchayats and other local municipal bodies could be a great help in this endeavour.

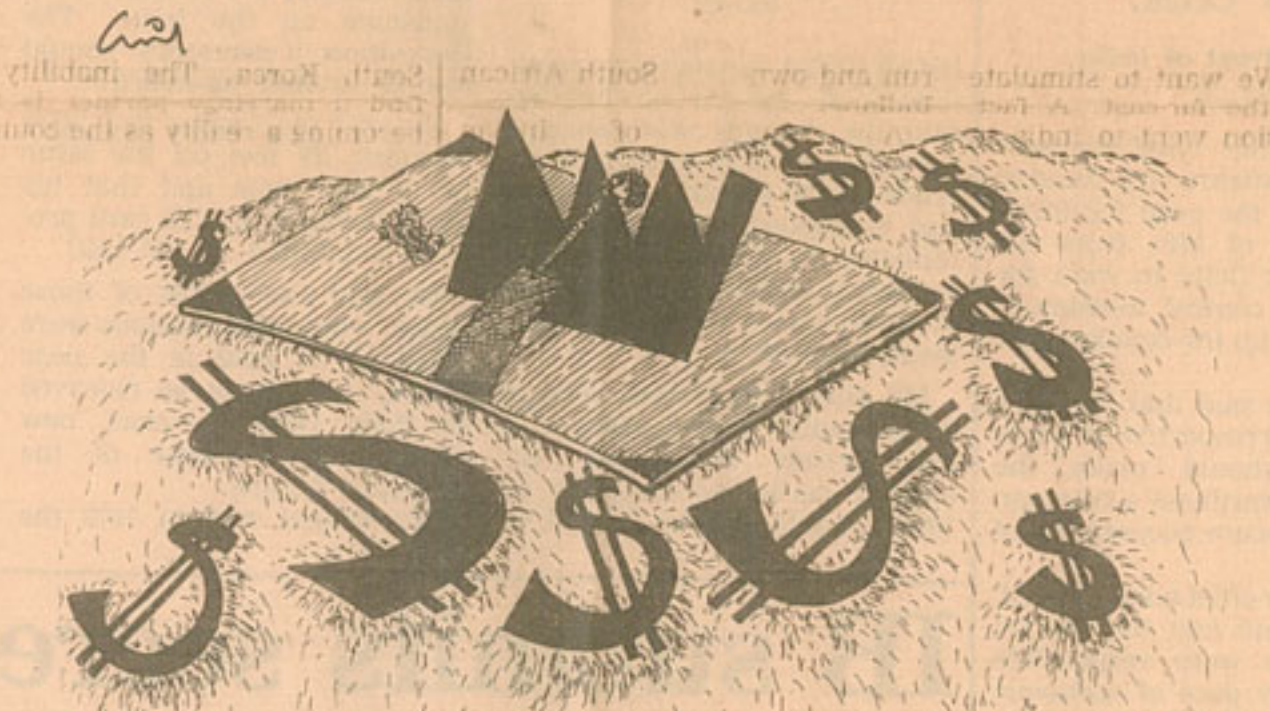
There is no escape from getting over the constraints of rupee resources. It would be naive and even ridiculous to expect that the external agencies would make arrangements even for meeting the rupee resource costs as well. Obviously, we are not looking for the PL-480 type situation in the 60s when the money realised from sale of foodgrains gifted to us from USA was used for funding developing programmes.

Sincere efforts are required, both at the centre and states, to tighten the belt on revenue expenditure and spare resources to the maximum extent possible for funding development activity.

Simultaneously, restructuring and improvement in the working of the undertakings of the Centre and the states will have to be pursued in all seriousness to ensure that, far from needing budgetary support from the government, they are able to generate resources internally.

This is also a pre-requisite for mobilising funds from the market, either by borrowings or share capital, as no one would lend money to loss-making enterprises.

Considering the present state of bankruptcies of most state enterprises (losses of SEBs estimated at a monumental Rs 30,000 crore during the eighth plan period) this seems to be a tall order. But there is no escape from addressing these fundamental maladies.



not be addressed merely by dispensing with one layer of administrative approvals. If the problems were only procedural, then the government would not have gone in for cancellation of the World Bank loan of \$2 billion (Rs 9,000 crore approximately) during the past three years.

Delays at the state level is also not ruled out. In the context of the overall reforms and liberalisation, it is clear beyond doubt that the state bureaucracy is a much bigger stumbling block. Consequently, even if one layer of bureaucracy goes what is the guarantee that the decision making process for utilising the external loans would get expedited.

The state finance departments which presumably would be negotiating with

respect of the central PSUs the going is presently not smooth primarily because of the various approvals that a project has to obtain.

Availing of external assistance is not an end in itself. It is meant for funding implementation of a project/scheme. Under the present set of rules, the PSUs have to negotiate for approval from myriad ministries.

To facilitate implementation, a project needs to be freed from the stranglehold of multiple approvals at different layers of the bureaucracy and the political machinery.

There should in fact be centralised clearance and, if necessary, the different agencies involved may be put as representatives on this nodal authority.